

# looking ahead

... A monthly report by the National Planning Association on forward-looking policy planning and research—announced, underway, and completed—of importance to the nation's future

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## The Economic Outlook for 1956

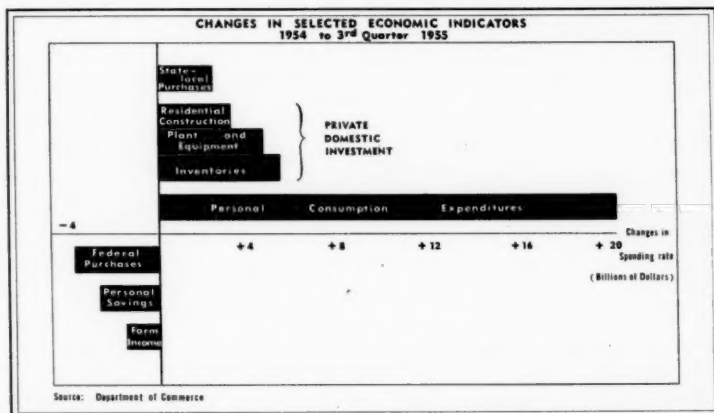
by Gerhard Colm

NPA Chief Economist

A YEAR AGO our outlook for 1955 was written for "Looking Ahead" when the recovery from the 1953-54 recession had just begun. At that time I stated that total production must increase by \$25-30 billion above the level of the third quarter of 1954 if the economy in 1955 was to reach a full employment level. I must confess that I did not expect that the economic recovery actually would bring us to the full employment level in 1955. But this is what happened.

### Recovery in 1955

The principal factors which contributed to the unexpectedly rapid recovery were: 1) the reversal of the 1954 inventory liquidation to a rapid rebuilding of inventories in 1955; 2) the spectacular rate of automobile production and sales; 3) the rise in business investment in plant and equipment; 4) the rise in residential construction.



Yet the most significant aspect of the recovery was the fact that the rise in these key items triggered expansion on a broad front. The recovery even affected such industries as textiles and regions

## The Talents of America

● "There still exists an urgent need to make clear that a new economic system has been born—a system which gives more benefits to more people than any yet devised—a system I should like to call 'People's Capitalism.' In my view, experts from various disciplines should define the ingredients of this system, and a popular writer should synthesize their conclusions in 'The Free World's 'Das Kapital.'"

● "We need to draw into our propaganda program more of the skills and talents of America. No group of professional propagandists, however able, can project a true image of the country, at an art exhibit, a trade fair, or anywhere else. In America, we have private organizations—from the Philadelphia Symphony to The Advertising Council—whose weight must be added to the Idea War.

● "We can win the Cold War. But we cannot win it in a walk. It is time we started running."

From a report on U. S. Propaganda Overseas by Theodore S. Repplier, president, The Advertising Council.



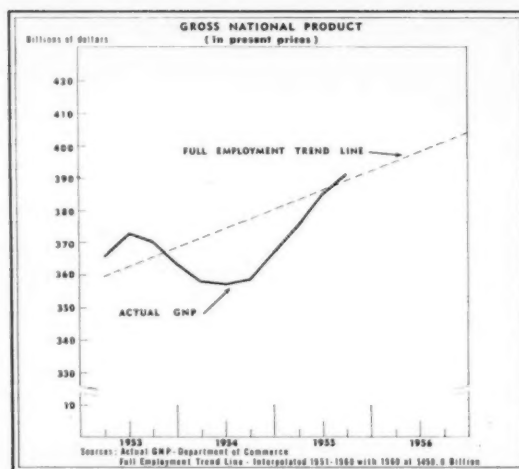
like New England which had been in the doldrums for years. Total wage income, for example, increased by eight percent between the third quarter 1954 and the third quarter 1955, while the cost of living remained virtually stable over the same period. Farm incomes alone continued to drop although farm production increased.

A year ago I was concerned, as were many other analysts, that the rate of expansion might not be sufficient to keep pace with the rise in productivity. What actually took place in 1955, however, caused more people to be concerned with too rapid an expansion in the economy and an inflationary threat than with the possibility of inadequate growth and unemployment. Thus, when the general expansion in economic activity began to involve substantial credit expansion, the monetary authorities adopted a policy of credit restriction which has particularly affected mortgage credit while government housing authorities have tightened the regulations on down payments and length of mortgage—all of which has contributed to a drop in housing starts toward the end of the year. How these developments are likely to affect the economic outlook for 1956 must be viewed in the perspective of all the other economic forces making for continued growth or recession.

#### Prospects for 1956

IN REVIEWING the prospects for 1956, it should be recognized that maintaining a level of full employment requires a lesser increase in economic activity than reaching full employment from a recession level of economic activity. While gross national product rose more than \$30 billion from the recession level of 1954 (third quarter) to the full employment level of 1955 (third quarter), a further rise of only about \$10 billion (in real terms) would be needed in order to maintain the full employment level over the next year.

What, then, are the chances that this objective will be achieved? Some of the underlying factors which have contributed to expansion during 1955 are likely to continue. Technological advances coupled with business confidence in growing markets has led to a further rise in the modernization and expansion plans of business. Also, the general movement toward suburbanization will continue to create demand for additional housing, additional household equipment, new retail outlets, and enlarged community facilities, in spite of a fall in the rate of family formation and some rise in the



rate of vacancies. Business continues to be highly liquid and will have little difficulty in financing further expansion even if the Federal Reserve System abstains from a policy of active credit expansion.

THE EXPECTED continuation of these expansionary factors is likely to make 1956 another year of high-level activity. It is much more difficult, however, to appraise the likelihood that the rise in activities will reach the needed \$10 billion increase but not create inflationary tendencies. On the plus side we have the fact that according to the recent McGraw Hill survey, business investment in plant and equipment will be about \$4 billion larger in 1956 than in 1955. There is also the fact that expenditures by Federal, state, and local governments may be \$3 to \$4 billion above the 1955 level.

With respect to the other key items which made for expansion in 1955, we cannot be so sure. Housing and automobile sales are not likely to rise above the 1955 levels. Nor is it likely that inventory accumulation will make the same contribution in support of activity as it made in the shift from the 1954 recession. Some further build-up in inventories is quite possible since the present ratio between finished goods on hand and sales is still quite low.

Consumer incomes have been rising, in part as a result of rising wage rates. With rising productivity some further rise in wage rates in excess of any offsetting price rises should be possible and is likely. However, it is also possible that some of the modernization in factories and offices may result in such advances in productivity that potential output may rise faster than employment and real wage income

in spite of rising wage rates. In the past, the creation of new job opportunities has more than offset the labor-saving effect of technological advances on employment. However, we have no assurance that these compensating forces will continue.

In 1955, consumer expenditures rose faster than consumer incomes as a result of the spectacular increase in consumer borrowing. It is expected that the purchase of automobiles and other durable goods will taper off though probably at a very high level. This would mean that the net addition to the installment debt would rise less than last year and that some part of next year's income will be absorbed by the rising payments on last year's borrowing. This would be reflected in a rising rate of consumer net saving.

Thus, it is not impossible that because of some appearance of technological unemployment and of a rise in net saving, the further expansion in capacity may temporarily be associated with a less than proportional increase in consumer demand.

While a period of extraordinarily rapid expansion may well lead to discrepancies of this nature, no one can say whether it is more likely that such tendencies will appear next year or within the next few years. Furthermore, it must be remembered that the government has the authority and the responsibility to adopt measures for counteracting such discrepancies if they should appear. The recent tightening of credit, particularly for housing, has the advantage that it can be eased again. Also, the fact that the tax level is high means that a tax reduction if adopted at the right places and at the right time can be very effective in support of lagging purchasing power.

The budget outlook is now for a moderate surplus in the fiscal year 1956 and a substantial surplus in fiscal 1957 (consolidated cash basis). This assumes that new programs for road construction, schools, social security, health and medical purposes will not yet involve significant additions to government payments during the next year. It also assumes continuation of high economic activity and increasing tax revenues. However, even with a cash surplus in sight it appears desirable to delay immediate tax reduction so that such measures could be used if and when they become necessary to support an inadequate rise of consumer demand.

**I**N SUMMARY, it may be said that the outlook for 1956 is for further expansion though at a reduced rate—but there is no ground for being complacent about the future. It is im-

portant to continue a policy of watchfulness and to have measures for counteracting economic discrepancies in readiness and not to dissipate their potential effectiveness by premature adoption, particularly, of tax reduction.

### Outlook After Two Geneva Conferences

**T**HE NPA COMMITTEE on International Policy last month warned that it is "high time" we began to appreciate the extent to which the free world's position has deteriorated with recent events. The Committee believes we are in fact now entering the "most perilous" phase of the cold war, for "behind the smokescreen of the peace offensive—however genuine it may be—the Soviet Union is relentlessly pursuing a course designed to divide the non-Soviet world, to undermine the bastions of its defense, and finally, to leave the United States the isolated protagonist of a lost cause."

The Committee recommended that the U.S. move immediately to take the initiative on diplomatic, economic, and ideological fronts.

In DIPLOMACY, the group urged, "the first order of business should be to strengthen the structure of our alliances—in particular, to breathe new life into NATO by reviving the dedication to a common cause and restoring confidence in our purposes and leadership."

In ECONOMICS, "while not disregarding the impact on the budget, we should recognize that in the struggle for survival this cannot be the primary consideration. Once we accept this idea, we will be able to appraise more realistically the prospective advantages of imaginative undertakings even when burdensome. This is a field in which, with our great resources, it would be quite absurd to permit ourselves to be outdistanced by the Communists. Yet they are actually threatening to outstrip us now. If we grasp this fact, we may assume a more generous attitude toward economic aid, technical assistance, and measures designed to further the development of the backward areas."

And in the IDEOLOGICAL field, "the United States Information Agency, until now harassed by Congress and handicapped by the conflicting statements of government officials difficult to make comprehensible to its audience, would at last be able—if this new outlook were adopted to assist friends and potential friends alike to realize the great extent to which there is an identity between their deepest desires and our own." ("The Outlook After the Two Geneva Conferences—A Note of Warning," NPA Committee on International Policy. From: NPA. 1955. 16 pp. 25¢)



—the people of NPA—



Murray

D.

Lincoln

From childhood days on his family's Massachusetts farm, NPA trustee Murray D. Lincoln has been convinced that the farmer can help himself to a richer life by cooperative teamwork. Now president of Nationwide Insurance of Columbus, Ohio, and of the Cooperative League of the U.S.A., Mr. Lincoln graduated from the Massachusetts Agricultural College in 1914 and began his career when he was 22 as the first County Agricultural Agent in Connecticut. Moving to Cleveland, Ohio, he was for three years agricultural agent for the Society for Savings Banks, and served 28 years as executive secretary of the Ohio Farm Bureau Federation. In 1926, he helped to found the Farm Bureau Mutual Automobile Insurance Company which ten years later bought controlling interest in the Life Insurance Company of America. A fire insurance company had been organized in 1934. In 1948, he resigned as executive secretary of the Ohio Farm Bureau Federation to devote himself to the insurance companies which this year have been renamed Nationwide Insurance. Presidential appointee for American agriculture on the U.S. delegation to the UN Conference on Food and Agriculture in Hot Springs in 1943, Mr. Lincoln has served as permanent consultant to the UN Economic and Social Council. He is a member of the Central Committee of the International Cooperative Alliance and an adviser to the Food and Agricultural Organization (FAO). He served on President Truman's Committee on Higher Education and on presidential advisory committees on Rural Electrification and Farm Tenancy. Since its organization in 1945, he has been president of CARE (Cooperative for American Remittances Everywhere) and is a director of Fund for Asia, Inc. He is convinced, as he puts it, that "world problems are grass-roots problems."

## Measuring Production Efficiency

**R**ISING PRODUCTIVITY is the moving target of multitudes of postwar development plans, yet productivity is a concept still to be studied, and reduced to clearly definable and measurable proportions. This year, to provide a forum for international discussion of problems and methods of measuring productivity, a new quarterly publication has been issued by the European Productivity Agency of the Organization for European Economic Cooperation.

By concentrating in this specialized but fundamental field, "The Productivity Review" fills a gap left by general economic journals. It will contain original articles, information about current and proposed studies in productivity measurement as well as bibliographies and reviews of publications in the field.

Though it might appear that the value of productivity measurement could be taken for granted, in the second issue of the Review, the editors pause to ask the basic question—why productivity measurement? Their answers seem worth noting.

According to the Review, analysis of the production process itself by exact scientific method has appeared to lag behind knowledge of demand analysis or of money supply and price relationships. Economists, charged with the task of predicting developments and analyzing economic progress, must be able to get a quantitative expression of productivity.

But besides its utility to the economic specialist, there is a direct stake for business, trade unions, the general public, and the government in the development of systematic, reliable productivity measurement. First, while the businessman, analyzing his company's internal structure, can know his own firm's technical potential, the value of this knowledge, the editors believe, will be greatly increased if methods of analysis are standardized to permit comparison between plants. "Efficiency experts and industrial engineers can estimate how changes in the production process can lead to increases in productivity, but such estimates, no matter how good, cannot carry quite the same conviction as a measurement from another factory showing that increases actually have taken place."

Unions will seek higher wages as a measured rise in productivity is revealed, but although the relationship between the level of factory productivity and wages is close, the editors note, it is neither direct nor simple,

and, they maintain, it is in the interest of both the unions and business that the relationships be studied in accurate numerical terms.

While the general public is interested in the way the gains of economic progress and increased productivity accrue to them in terms of lower prices, the Government will find systematic productivity measurement a vital tool in policy making. "Whether the Government is exercising a large amount of direct control of the economy," the Review emphasizes, "or is acting mainly through the bank rate and credit supply, reliable statistical information on productivity trends is essential for making predictions which are so accurate that they can be used with confidence as a basis for long-term planning."

("Productivity Measurement Review," no. 2, August 1955. From: OEEC Mission, Suite 61 2002 P St. N.W. Wash. 7, D.C. 50¢) ◀

## Civilization and Religion

AT A THREE-DAY conference, October 24-26 in Washington, a number of American religious and lay leaders, and a sprinkling of foreign representatives considered together the meaning of "civilization and religion." This was the 2nd National Conference on Spiritual Foundations held by the Foundation for Religious Activity in the Social and Civil Order.

The Foundation was established in 1953 as an independent, nonsectarian association, organized for the purpose of bringing together on its council, high-level lay and clerical representatives from the major religious faiths in America and to act as an instrument for inter-faith activity in correcting what the organization has called "a serious imbalance between the military and economic components and the intellectual and spiritual factors in our national security structure." The challenge of communist ideology is palpably clear, and the free world must oppose it with a massive spiritual effort. The Foundation "seeks to spell out" what Americans can do to bring the spiritual dimension into practical affairs.

The organization has a National Advisory Council composed of approximately 50 members, a Standing Policy Committee, and a Planning Committee which aids in the selection of new programs and projects. Henry R. Luce, a member of NPA's National Council, is on the Foundation's National Advisory Council.

## Farm Policy Reappraised

THE NPA AGRICULTURE Committee has warned against seeking "one grand solution" to the problems plaguing U.S. agriculture, calling instead for a many-sided attack through a series of related programs. The Committee suggested a number of new approaches to help shift production from surplus crops and to help stabilize prices by increasing consumption of farm products. Proposing that some of these new methods be tried first on a limited, or pilot, scale, the group observed that this is a common practice in American industry in order to test out new procedures before widespread application. Some of the Committee's specific recommendations were:

An experiment in production payments, rather than purchase and storage, to support dairy products at 75 percent of parity. This would throw light on the relative value of the two methods in case support for other livestock products seemed desirable in the future.

High priority treatment on the use of public funds for conservation in the next few years, with emphasis on reducing output of wheat, cotton, and some feed grains, and holding livestock expansion in check. This would involve the much discussed "soil bank" program; government purchase or leasing of marginal wheat lands in high-risk areas to retire them from production; and additional USDA research in grass and legume seed production.

Programs to expand consumption of livestock products and other foods, including: a "food stamp" program to provide more purchasing power for low-income families; income payments to butterfat producers to facilitate a shift to increased consumption of nonfat milk solids; and expansion of the school lunch program to cover at least 75 percent of the school children instead of the present 30 percent.

Appointment by the President of a commission to develop for congressional approval a strategic reserve policy and program for food and fiber as a precaution against war or drought emergencies.

Programs, including expanded credit assistance, for organizing more farms into units large enough to utilize modern technology, and for shifting excess resources out of agriculture—the latter involving better educational, vocational, and re-employment assistance for those leaving the farms.

("A New Look at Farm Policy." NPA Agriculture Committee on National Policy. Mimeographed. From: NPA, 1955. 30 pp)

## The Quality of Education—an Economic Dilemma

THE FUND FOR the Advancement of Education, established by the Ford Foundation in 1951, is undertaking a comprehensive investigation of the teaching profession in the United States, and its first published findings, a factual analysis of the salaries received by teachers and educational administrators prepared by Beardsley Ruml and Sidney G. Tickton, light up a serious economic dilemma. Drawing a 50-year comparison of wage scales in the teaching profession and in other occupations and industries, the authors underscore the deterioration in the economic status of educators which has caused so many able young men and women to reject positions in education and prepare instead for more remunerative jobs in advertising, law, medicine, and business. The income lag is greatest at the top levels of the teaching profession.

Mr. Ruml is an NPA trustee and chairman of the NPA Business Committee, and Mr. Tickton was the author of "The Budget in Transition," staff study prepared for the NPA Business Committee, February 1955.

The teacher's loss of economic status, Mr. Ruml believes, is a trend threatening the very future of democracy, but a trend which it is well within the capacities of the American economic system to reverse. "The American society is deteriorating in the sector most critical for future progress and well-being," he says. "The quality of the future depends on education at all levels, and the quality of education depends on its top leadership."

The report offers comparative statistics to show the purchasing power of income after taxes available to a married man with two children, the year 1904 being taken as a convenient base point. Data were obtained on the wages of all major classifications within the teaching profession, and comparable data were found for other occupations including dentists, doctors, telephone operators, automotive workers, and the like. Reliable information was lacking, however, on salaries of top business executives, and to make top-bracket comparisons the report used published salary data for railroad executives, although this group has gained relatively less, in the opinion of the authors, than have other U.S. industrial executives.

In the 50-year period from 1904 to 1953, wages rose in all sections of the U.S. economy though lagging markedly in education. Losses in absolute purchasing power of those employed in education occur chiefly at the top of the salary scale where truly major losses will be apparent from the following, selected examples. Merely to restore the same access to material purchases and not taking into consideration changes in the relative economic position of noneducational jobs, the Superintendent of Schools for the City of New York would require a salary of \$50,400 to match the purchasing power of the \$10,000 salary he got in 1908. In 1953, he received \$32,500. The Commissioner of Education for New York State received \$7,500 in 1908. To restore this purchasing power 45 years later, he should have received \$32,250. In 1953, his salary was \$20,000.

MOST SIGNIFICANT deterioration for education as a whole, however, occurred not in absolute income status, according to the study, but rather in the changed, relative economic status compared with other industries. The 50-year period produced, for example, the following gains in real purchasing power: automotive workers, 140%; electrical machinery workers, 131%; telephone operators, 111%; railroad executives, 11%. The teaching profession registered no such increases, the only major gains accruing to elementary teachers in small towns and cities where increase in purchasing power was 101-119%. Teachers in big city elementary schools gained only 60% and in small city high schools only 37%. Purchasing power fell for teachers in big city high schools by 1%, for high school principals by 5-30%, and for professors of large universities and university presidents by 2%. This relative loss of status, the report says, is not compensated for by perquisites or fringe benefits.

Ambitious young people considering career opportunities in teaching will, of course, be concerned with the pattern of income at the top of the scale, and it is at the top where the greatest degree of deterioration has occurred—in marked contrast to lower-income teaching groups. Mr. Ruml observes that several factors are responsible for irregular gains and losses



within the teaching profession itself. Increased costs of living, he says, made it imperative that any funds available for teaching salaries be allotted to those whose economic distress was most dire, so lower-income groups received pay boosts when an across-the-board increase was impossible. In addition, since turnover of personnel has always been greatest among lower-income teaching groups, "compensation had to be revised upward from year to year in order to attract new personnel... (and) prevailing markets had to be met." Older instructors of higher status, the report states, could be expected to stay on without increased compensation because they had nowhere else to go.

**BUDGET SHORTAGES** for teaching salaries are attributable to a number of factors, the report shows. First, the principle source of revenue open to the public schools has been the property tax which did not directly reflect the rising national income. Second, private, endowed colleges found their endowment income fell far short of increased expenses. "Tax exemptions helpful as they are in increasing current revenues do not create the fortunes which provide capital gifts," Mr. Ruml says. Other factors include channelling of greater proportions of academic budgets into nonteaching activities, absence of the tax subsidy available to industry which makes it pay to give taxable profits to executives in the form of higher salaries, and the political and public relations considerations which make it difficult to raise top salaries in nonprofit institutions.

Other studies on various aspects of the teaching profession are to be published by the Fund when completed. ("Teaching Salaries Then and Now; a 50-year comparison with other occupations and industries." Bulletin no. 1. Beardsley Ruml and Sidney G. Tickton. From: The Fund for the Advancement of Education. N. Y. 21. 1955. 93 pp)

### Marketing Award

Two members of NPA's National Council were named this fall to the Marketing Hall of Fame, an annual award given under the auspices of the American Marketing Association.

The Council members were Wroe Alderson, senior partner of Alderson & Sessions, market research and management firm in Philadelphia, and Edwin G. Nourse, author of the book, "America's Capacity to Produce."

### Foreign Business Directories

**THE U.S. DEPARTMENT** of Commerce has published this year "A Guide to Foreign Business Directories," bringing up to date a useful volume which appeared first in 1931 and had been last revised in 1951. The new manual will assist persons wishing to identify individuals or organizations engaged in a specific foreign business or profession.

In the first section, the guide indexes by country the available general foreign directories and special foreign trade lists. A random selection under "France," for instance, reveals the "Bottin de l'Automobile," a directory of the automobile industry, listing body builders, dealers, and accessory manufacturers; and "France Plastiques," a classified list of firms manufacturing or dealing in plastics products. The second section contains a list of international trade directories published in the United States. These appear under the headings, aviation, banks, breweries, coin machines, and so forth. An appendix lists the country directories according to specific industry or product. ("A Guide to Foreign Business Directories." From: Supt. of Doc., Wash. 25, D.C. 1955. 132 pp. 45¢)

### U. S. Business Performance Abroad

**THE STORY OF** the mutually dependent development of an American overseas company and the economy of its host country is told in a case study of the Creole Petroleum Corporation in Venezuela just issued by NPA as the fourth in its series on United States Business Performance Abroad. The study was conducted by Wayne Chatfield Taylor and John Lindeman.

The study concludes that the remarkable economic progress made in Venezuela in only two decades would not have been possible without the stable relationship between the government of Venezuela and the foreign oil companies, of which Creole—an affiliate of the Standard Oil Company (New Jersey)—is the largest. The oil companies profit from the vast resources under Venezuelan soil, and Venezuela profits by plowing back most of its petroleum royalty and tax revenues into modern highways, schools, hospitals, irrigation and power, industrial plants, and other capital projects. The companies, too, encourage education and other forms of economic and social

progress, which, in the long run, will bolster their own welfare. A good example of Creole's policy is its rule of giving employment preference to Venezuelans at all levels in the organization.

The authors describe the way in which Creole, by remaining aloof from Venezuelan politics, has managed to operate successfully under governments ranging from professedly leftist regimes to personal dictatorship, while at the same time creating a relationship with the government whereby the two work closely together on matters of mutual concern.

"On the whole," the study states, "the story is a good one...practically devoid of the kind of 'exploitation' that some propagandists would automatically associate with large and powerful companies dealing with a relatively small and underdeveloped country. It is also a story that does not support the contention that extractive industries 'leave nothing behind them but a hole in the ground.' In place of exploitation, there have been rising standards of living and of health, considerable educational progress, and, hopefully, the gradual evolution of stable and democratic political institutions."

("The Creole Petroleum Corporation in Venezuela." Wayne C. Taylor and John Lindeman. From: NPA. 1955. 116 pp. \$1)

Mr. D. C. Everest, charter member of NPA's National Council, died on October 28, 1955. Mr. Everest was chairman of the board of the Marathon Corporation, Menasha, Wisconsin.

#### New CED Chairman

J. D. Zellerbach, president of Crown Zellerbach Corporation and a member of NPA's board of trustees, has been elected chairman of the Committee for Economic Development.

The CED, which was incorporated in 1942 with Paul G. Hoffman as its first chairman, is a private, non-profit economic research and education organization supported by voluntary contributions from business and industry.

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